Gas Royalty-in-Kind Pilot
Federal (8g) Leases-Offshore of Texas

- Investigation of taking the federal share of mineral royalties as a share of the actual product (royalty in kind or RIK) is an innovative, but unproven, approach to DOI's' responsibilities that has been under active consideration by MMS since 1994.

- An MMS 1997 Feasibility Study concluded that, under the right conditions, RIK could be workable, revenue positive, and administratively more efficient for government and industry. The study also concluded that a mandatory across-the-board RIK program would reduce Federal royalty revenues.

- Pursuant to the 1997 study's recommendations, MMS is conducting, in collaboration with the State of Texas, development and implementation of a pilot program to take natural gas royalties from federal leases in the (8g) zone offshore of the State of Texas as a share of production (i.e., "in-kind" rather than "in-cash") and subsequently sell that gas in the open market.

- The objectives of this pilot program are to test the propriety of the RIK concept for collecting federal gas royalties.

- MMS has met with officials of the State (which shares in 8(g) revenues) to begin development of a mutually satisfactory RIK pilot for Texas 8(g) gas production.

- A Texas RIK pilot is expected to be in place in the Fall of 1998 and last 2-3 years.

- In addition to the Texas project, MMS is developing at least two other RIK pilot programs based on the recommendations in the MMS 1997 RIK Feasibility Study. They are an RIK pilot for federal crude oil from Wyoming, and an offshore Gulf of Mexico natural gas RIK pilot.

- Involvement of other federal agencies in the pilots is being considered as well.

- The following criteria have been established for evaluating the success of the 3 RIK pilots:

  - ➢ simplicity, accuracy, certainty for lessees and government;
  - ➢ revenue neutral (or better) for government;
  - ➢ reduced administrative burden for lessees and government; and
  - ➢ consistency with terms of existing leases.